

# PERAC AUDIT REPORT



Lexington Contributory Retirement System

JAN. 1, 2001 - DEC. 31, 2004 / PERAC 04: 11-048-09



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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

DOMENIC J. F. RUSSO, *Chairman* | A. JOSEPH DeNUCCI, *Vice Chairman*

JOSEPH E. CONNARTON, *Executive Director*

HENRY G. BRAUER | KENNETH J. DONNELLY | JAMES M. MACHADO | DONALD R. MARQUIS | THOMAS TRIMARCO

November 14, 2005

The Public Employee Retirement Administration Commission has completed an examination of the **Lexington** Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, **2001** to December 31, **2004**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

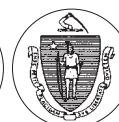
In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner Richard Ackerson who conducted this examination and expresses appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director



## Lexington Retirement System

### **EXPLANATION OF FINDINGS AND RECOMMENDATIONS**

**FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004**

**1. Bonding**

The Board does not have a policy independent of the Town of Lexington. PERAC Regulation 840 CMR 17.00 requires that “All board members and retirement system staff shall be bonded in an amount sufficient to provide reasonable protection against losses due to fraud and dishonesty and each shall be bonded for no less than 10% of the amount of the fund or \$500,000”.

**Recommendation:**

The Board should secure their own fraud and dishonesty policy to insure they are in compliance with PERAC Regulations.

**Board Response:**

The Board has contacted Paul Shanley at Amity Insurance Agency, Inc. and will be joining the MACRS Fiduciary Insurance Program as early as possible.

**2. Budgets**

The Board does not prepare and adopt an annual expense budget. G.L. c. 32, § 22 (5) requires retirement boards to adopt an annual expense budget and file the budget with the appropriate legislative body.

**Recommendation:**

The Board must adopt an annual expense budget and file that budget with the Town of Lexington 30 days prior to adoption.

**Board Response:**

The Board will adopt an annual expense budget starting January 2006 and will file the budget with the Town of Lexington prior to adoption.

**Final Determination:**

***PERAC audit staff will follow up in six (6) months to ensure the appropriate actions have been taken regarding all audit findings.***

# Lexington Retirement System

## STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2001  
AND ENDING DECEMBER 31, 2004**

| <b>FOR THE PERIOD ENDING DECEMBER 31,</b> |                            |                            |                            |                            |
|---|----------------------------|----------------------------|----------------------------|----------------------------|
| <b>ASSETS</b>                             | <b>2004</b>                | <b>2003</b>                | <b>2002</b>                | <b>2001</b>                |
| Cash                                      | (\$95,624)                 | (\$127,821)                | \$50,202                   | \$90,865                   |
| Short Term Investments                    | 585,161                    | 1,494,354                  | 6,655,811                  | 0                          |
| Fixed Income Securities (at book value)   | 0                          | 0                          | 0                          | 0                          |
| Equities                                  | 4,548,402                  | 3,763,963                  | 0                          | 0                          |
| Pooled Short Term Funds                   | 0                          | 0                          | 0                          | 0                          |
| Pooled Domestic Equity Funds              | 0                          | 4,381,339                  | 8,452,676                  | 21,394,672                 |
| Pooled International Equity Funds         | 17,681,689                 | 13,243,954                 | 3,567,199                  | 3,080,320                  |
| Pooled Global Equity Funds                | 0                          | 0                          | 0                          | 0                          |
| Pooled Domestic Fixed Income Funds        | 16,785,459                 | 26,147,233                 | 31,023,180                 | 28,376,529                 |
| Pooled International Fixed Income Funds   | 0                          | 0                          | 0                          | 0                          |
| Pooled Global Fixed Income Funds          | 0                          | 0                          | 0                          | 0                          |
| Pooled Alternative Investment Funds       | 0                          | 0                          | 0                          | 0                          |
| Pooled Real Estate Funds                  | 0                          | 0                          | 0                          | 2,800,058                  |
| Pooled Domestic Balanced Funds            | 50,252,148                 | 33,940,669                 | 22,110,618                 | 19,758,507                 |
| Pooled International Balanced Funds       | 0                          | 0                          | 0                          | 0                          |
| PRIT Cash Fund                            | 0                          | 0                          | 0                          | 0                          |
| PRIT Core Fund                            | 0                          | 0                          | 0                          | 0                          |
| Interest Due and Accrued                  | 1,271                      | 796                        | 628                        | 280                        |
| Accounts Receivable                       | 3,130,083                  | 1,687,058                  | 700,290                    | 1,543,179                  |
| Accounts Payable                          | (83,229)                   | (71,697)                   | (32,074)                   | (29,726)                   |
| <b>TOTAL</b>                              | <b><u>\$92,805,359</u></b> | <b><u>\$84,459,848</u></b> | <b><u>\$72,528,531</u></b> | <b><u>\$77,014,683</u></b> |
| <b>FUND BALANCES</b>                      |                            |                            |                            |                            |
| Annuity Savings Fund                      | \$18,245,826               | \$17,091,934               | \$18,011,357               | \$16,382,205               |
| Annuity Reserve Fund                      | 6,693,484                  | 7,111,661                  | 5,168,549                  | 5,319,848                  |
| Pension Fund                              | 6,806,758                  | 8,954,438                  | 10,180,534                 | 11,409,884                 |
| Military Service Fund                     | 5,261                      | 0                          | 5,715                      | 5,636                      |
| Expense Fund                              | 0                          | 0                          | 0                          | 0                          |
| Pension Reserve Fund                      | <u>61,054,029</u>          | <u>51,301,816</u>          | <u>39,162,376</u>          | <u>43,897,109</u>          |
| <b>TOTAL</b>                              | <b><u>\$92,805,359</u></b> | <b><u>\$84,459,848</u></b> | <b><u>\$72,528,531</u></b> | <b><u>\$77,014,683</u></b> |

# Lexington Retirement System

## STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2001  
AND ENDING DECEMBER 31, 2004**

|                                 | <b>Annuity<br/>Savings<br/>Fund</b> | <b>Annuity<br/>Reserve<br/>Fund</b> | <b>Pension<br/>Fund</b>   | <b>Military<br/>Service<br/>Fund</b> | <b>Expense<br/>Fund</b> | <b>Pension<br/>Reserve<br/>Fund</b> | <b>Total<br/>All<br/>Funds</b> |
|---------------------------------|-------------------------------------|-------------------------------------|---------------------------|--------------------------------------|-------------------------|-------------------------------------|--------------------------------|
| <b>Beginning Balance (2001)</b> | \$15,643,506                        | \$4,790,885                         | \$12,583,434              | \$5,531                              | \$0                     | \$46,841,529                        | <b>\$79,864,885</b>            |
| Receipts                        | 2,173,238                           | 176,966                             | 2,939,729                 | 105                                  | 181,018                 | (2,944,420)                         | <b>2,526,636</b>               |
| Interfund Transfers             | (996,573)                           | 996,573                             | 0                         | 0                                    | 0                       | 0                                   | <b>0</b>                       |
| Disbursements                   | <u>(437,965)</u>                    | <u>(644,576)</u>                    | <u>(4,113,267)</u>        | <u>0</u>                             | <u>(181,018)</u>        | <u>0</u>                            | <b><u>(5,376,826)</u></b>      |
| <b>Ending Balance (2001)</b>    | <b>16,382,205</b>                   | <b>5,319,848</b>                    | <b>11,409,896</b>         | <b>5,636</b>                         | <b>0</b>                | <b>43,897,109</b>                   | <b>77,014,695</b>              |
| Receipts                        | 2,508,581                           | 154,529                             | 3,138,912                 | 79                                   | 166,144                 | (4,734,733)                         | <b>1,233,512</b>               |
| Interfund Transfers             | (377,123)                           | 377,123                             | 0                         | 0                                    | 0                       | 0                                   | <b>0</b>                       |
| Disbursements                   | <u>(502,306)</u>                    | <u>(682,951)</u>                    | <u>(4,368,262)</u>        | <u>0</u>                             | <u>(166,144)</u>        | <u>0</u>                            | <b><u>(5,719,664)</u></b>      |
| <b>Ending Balance (2002)</b>    | <b>18,011,357</b>                   | <b>5,168,549</b>                    | <b>10,180,546</b>         | <b>5,715</b>                         | <b>0</b>                | <b>39,162,376</b>                   | <b>72,528,543</b>              |
| Receipts                        | 2,260,933                           | 153,834                             | 3,284,163                 | 0                                    | 264,295                 | 12,108,833                          | <b>18,072,059</b>              |
| Interfund Transfers             | (2,543,497)                         | 2,518,605                           | 0                         | (5,715)                              | 0                       | 30,607                              | <b>(0)</b>                     |
| Disbursements                   | <u>(636,860)</u>                    | <u>(729,328)</u>                    | <u>(4,510,259)</u>        | <u>0</u>                             | <u>(264,295)</u>        | <u>0</u>                            | <b><u>(6,140,742)</u></b>      |
| <b>Ending Balance (2003)</b>    | <b>17,091,934</b>                   | <b>7,111,661</b>                    | <b>8,954,450</b>          | <b>0</b>                             | <b>0</b>                | <b>51,301,816</b>                   | <b>84,459,860</b>              |
| Receipts                        | 2,064,031                           | 204,687                             | 3,395,259                 | 5,261                                | 401,492                 | 9,733,739                           | <b>15,804,469</b>              |
| Interfund Transfers             | (265,834)                           | 247,361                             | 0                         | 0                                    | 0                       | 18,474                              | <b>0</b>                       |
| Disbursements                   | <u>(644,304)</u>                    | <u>(870,224)</u>                    | <u>(5,542,938)</u>        | <u>0</u>                             | <u>(401,492)</u>        | <u>0</u>                            | <b><u>(7,458,958)</u></b>      |
| <b>Ending Balance (2004)</b>    | <b><u>\$18,245,826</u></b>          | <b><u>\$6,693,484</u></b>           | <b><u>\$6,806,770</u></b> | <b><u>\$5,261</u></b>                | <b><u>\$0</u></b>       | <b><u>\$61,054,029</u></b>          | <b><u>\$92,805,371</u></b>     |

# Lexington Retirement System

## STATEMENT OF INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2001  
AND ENDING DECEMBER 31, 2004**

|  | <b>FOR THE PERIOD ENDING DECEMBER 31,</b> |                            |                           |                           |
|--|---|----------------------------|---------------------------|---------------------------|
|  | <b>2004</b>                               | <b>2003</b>                | <b>2002</b>               | <b>2001</b>               |
| <b>Annuity Savings Fund:</b>   |   |                            |                           |                           |
| Members Deductions   | \$1,824,836                               | \$1,880,222                | \$1,858,932               | \$1,682,959               |
| Transfers from other Systems   | 94,227                                    | 148,081                    | 350,837                   | 134,740                   |
| Member Make Up Payments and Redeposits                                 | 44,527                                    | 56,485                     | 72,249                    | 73,658                    |
| Investment Income Credited to Member Accounts                          | 100,441                                   | 176,145                    | 226,562                   | 281,882                   |
| <b>Sub Total</b>   | <b><u>2,064,031</u></b>                   | <b><u>2,260,933</u></b>    | <b><u>2,508,581</u></b>   | <b><u>2,173,238</u></b>   |
| <b>Annuity Reserve Fund:</b>   |   |                            |                           |                           |
| Investment Income Credited Annuity Reserve Fund                        | <u>204,687</u>                            | <u>153,834</u>             | <u>154,529</u>            | <u>176,966</u>            |
| <b>Pension Fund:</b>   |   |                            |                           |                           |
| 3 (8) (c) Reimbursements from Other Systems                            | 49,660                                    | 52,709                     | 51,796                    | 41,005                    |
| Received from Commonwealth for COLA and Survivor Benefits              | 269,239                                   | 237,483                    | 325,864                   | 227,523                   |
| Pension Fund Appropriation   | 3,076,360                                 | 2,993,971                  | 2,761,252                 | 2,671,201                 |
| <b>Sub Total</b>   | <b><u>3,395,259</u></b>                   | <b><u>3,284,163</u></b>    | <b><u>3,138,912</u></b>   | <b><u>2,939,729</u></b>   |
| <b>Military Service Fund:</b>  |   |                            |                           |                           |
| Contribution Received from Municipality on Account of Military Service | 5,261                                     | 0                          | 0                         | 0                         |
| Investment Income Credited Military Service Fund                       | 0   | 0                          | 79                        | 105                       |
| <b>Sub Total</b>   | <b><u>5,261</u></b>                       | <b><u>0</u></b>            | <b><u>79</u></b>          | <b><u>105</u></b>         |
| <b>Expense Fund:</b>   |   |                            |                           |                           |
| Expense Fund Appropriation   | 0   | 0                          | 0                         | 0                         |
| Investment Income Credited to Expense Fund                             | 401,492                                   | 264,295                    | 166,144                   | 181,018                   |
| <b>Sub Total</b>   | <b><u>401,492</u></b>                     | <b><u>264,295</u></b>      | <b><u>166,144</u></b>     | <b><u>181,018</u></b>     |
| <b>Pension Reserve Fund:</b>   |   |                            |                           |                           |
| Federal Grant Reimbursement  | 0   | 0                          | 0                         | 0                         |
| Pension Reserve Appropriation  | 0   | 0                          | 0                         | 0                         |
| Interest Not Refunded  | 1,671                                     | 1,441                      | 1,469                     | 3,751                     |
| Misc Income  | 20,829                                    | 18,913                     | 0                         | 0                         |
| Excess Investment Income   | 9,711,239                                 | 12,088,480                 | (4,736,201)               | (2,948,171)               |
| <b>Sub Total</b>   | <b><u>9,733,739</u></b>                   | <b><u>12,108,833</u></b>   | <b><u>(4,734,733)</u></b> | <b><u>(2,944,420)</u></b> |
| <b>TOTAL RECEIPTS</b>  | <b><u>\$15,804,469</u></b>                | <b><u>\$18,072,059</u></b> | <b><u>\$1,233,512</u></b> | <b><u>\$2,526,636</u></b> |

# Lexington Retirement System

## STATEMENT OF DISBURSEMENTS

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2001  
AND ENDING DECEMBER 31, 2004**

| <b>FOR THE PERIOD ENDING DECEMBER 31,</b> |                           |                           |                           |                           |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
|   | <b>2004</b>               | <b>2003</b>               | <b>2002</b>               | <b>2001</b>               |
| <b>Annuity Savings Fund:</b>              |                           |                           |                           |                           |
| Refunds to Members                        | \$169,208                 | \$147,824                 | \$228,394                 | \$256,258                 |
| Transfers to other Systems                | <u>475,096</u>            | <u>489,035</u>            | <u>273,912</u>            | <u>181,707</u>            |
| <b>Sub Total</b>                          | <b><u>644,304</u></b>     | <b><u>636,860</u></b>     | <b><u>502,306</u></b>     | <b><u>437,965</u></b>     |
| <b>Annuity Reserve Fund:</b>              |                           |                           |                           |                           |
| Annuities Paid                            | 867,976                   | 696,687                   | 675,038                   | 644,576                   |
| Option B Refunds                          | <u>2,248</u>              | <u>32,641</u>             | <u>7,913</u>              | <u>0</u>                  |
| <b>Sub Total</b>                          | <b><u>870,224</u></b>     | <b><u>729,328</u></b>     | <b><u>682,951</u></b>     | <b><u>644,576</u></b>     |
| <b>Pension Fund:</b>                      |                           |                           |                           |                           |
| Pensions Paid                             |                           |                           |                           |                           |
| Regular Pension Payments                  | 4,281,068                 | 3,336,345                 | 3,238,169                 | 2,981,963                 |
| Survivorship Payments                     | 222,283                   | 226,138                   | 235,102                   | 216,132                   |
| Ordinary Disability Payments              | 42,989                    | 45,071                    | 50,618                    | 49,250                    |
| Accidental Disability Payments            | 627,593                   | 602,568                   | 573,842                   | 577,167                   |
| Accidental Death Payments                 | 163,033                   | 161,141                   | 159,776                   | 166,106                   |
| Section 101 Benefits                      | 0                         | 0                         | 0                         | 0                         |
| 3 (8) (c) Reimbursements to Other Systems | 205,971                   | 138,996                   | 110,756                   | 81,124                    |
| State Reimbursable COLA's Paid            | 0                         | 0                         | 0                         | 41,524                    |
| Chapter 389 Beneficiary Increase Paid     | <u>0</u>                  | <u>0</u>                  | <u>0</u>                  | <u>0</u>                  |
| <b>Sub Total</b>                          | <b><u>5,542,938</u></b>   | <b><u>4,510,259</u></b>   | <b><u>4,368,262</u></b>   | <b><u>4,113,267</u></b>   |
| <b>Military Service Fund:</b>             |                           |                           |                           |                           |
| Return to Municipality for Members Who    |                           |                           |                           |                           |
| Withdrew Their Funds                      | <u>0</u>                  | <u>0</u>                  | <u>0</u>                  | <u>0</u>                  |
| <b>Expense Fund:</b>                      |                           |                           |                           |                           |
| Board Member Stipend                      | 1,500                     | 1,500                     | 0                         | 0                         |
| Salaries                                  | 56,779                    | 54,075                    | 8,286                     | 3,716                     |
| Legal Expenses                            | 497                       | 2,821                     | 0                         | 0                         |
| Medical Expenses                          | 0                         | 0                         | 0                         | 0                         |
| Service Contracts                         | 8,840                     | 5,804                     | 0                         | 0                         |
| Travel Expenses                           | 2,820                     | 3,373                     | 3,655                     | 2,791                     |
| Administrative Expenses                   | 2,924                     | 7,798                     | 31,085                    | 14,929                    |
| Furniture and Equipment                   | 0                         | 499                       | 0                         | 15,256                    |
| Management Fees                           | 210,736                   | 131,790                   | 113,557                   | 133,135                   |
| Custodial Fees                            | 51,896                    | 7,334                     | 9,561                     | 11,192                    |
| Consultant Fees                           | <u>65,500</u>             | <u>49,301</u>             | <u>0</u>                  | <u>0</u>                  |
| <b>Sub Total</b>                          | <b><u>401,492</u></b>     | <b><u>264,295</u></b>     | <b><u>166,144</u></b>     | <b><u>181,018</u></b>     |
| <b>TOTAL DISBURSEMENTS</b>                | <b><u>\$7,458,958</u></b> | <b><u>\$6,140,742</u></b> | <b><u>\$5,719,664</u></b> | <b><u>\$5,376,826</u></b> |



# Lexington Retirement System

## INVESTMENT INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2001  
AND ENDING DECEMBER 31, 2004**

|   | <b>FOR THE PERIOD ENDING DECEMBER 31,</b> |                            |                             |                             |
|---|---|----------------------------|-----------------------------|-----------------------------|
|   | <b>2004</b>                               | <b>2003</b>                | <b>2002</b>                 | <b>2001</b>                 |
| <b>Investment Income Received From:</b>                               |   |                            |                             |                             |
| Cash  | \$0                                       | \$38,099                   | \$46,867                    | \$25,411                    |
| Short Term Investments  | 18,801                                    | 0                          | 0                           | 0                           |
| Fixed Income  | 0   | 0                          | 0                           | 0                           |
| Equities  | 23,025                                    | 970                        | 0                           | 0                           |
| Pooled or Mutual Funds  | 2,125,098                                 | 1,869,709                  | 2,070,573                   | <u>2,772,144</u>            |
| Commission Recapture  | <u>0</u>                                  | <u>0</u>                   | <u>0</u>                    | <u>0</u>                    |
| <b>TOTAL INVESTMENT INCOME</b>  | <b><u>2,166,924</u></b>                   | <b><u>1,908,778</u></b>    | <b><u>2,117,441</u></b>     | <b><u>2,797,556</u></b>     |
| <b>Plus:</b>  |   |                            |                             |                             |
| Realized Gains  | 430,480                                   | 697,084                    | 1,400,983                   |                             |
| Unrealized Gains  | 10,409,453                                | 13,061,194                 | 3,530,229                   | 8,511,114                   |
| Interest Due and Accrued on Fixed Income Securities -<br>Current Year | <u>1,271</u>                              | <u>796</u>                 | <u>628</u>                  | <u>280</u>                  |
| <b>Sub Total</b>  | <b><u>10,841,204</u></b>                  | <b><u>13,759,075</u></b>   | <b><u>4,931,840</u></b>     | <b><u>8,511,394</u></b>     |
| <b>Less:</b>  |   |                            |                             |                             |
| Paid Accrued Interest on Fixed Income Securities                      | 0   | 0                          | 0                           | 0                           |
| Realized Loss   | (429,358)                                 | (5,391)                    | (1,467,492)                 | 0                           |
| Unrealized Loss   | (2,160,114)                               | (2,979,079)                | (9,770,397)                 | (13,611,071)                |
| Interest Due and Accrued on Fixed Income Securities -<br>Prior Year   | <u>(796)</u>                              | <u>(628)</u>               | <u>(280)</u>                | <u>(6,080)</u>              |
| <b>Sub Total</b>  | <b><u>(2,590,268)</u></b>                 | <b><u>(2,985,098)</u></b>  | <b><u>(11,238,168)</u></b>  | <b><u>(13,617,150)</u></b>  |
| <b>NET INVESTMENT INCOME</b>  | <b><u>10,417,859</u></b>                  | <b><u>12,682,755</u></b>   | <b><u>(4,188,887)</u></b>   | <b><u>(2,308,200)</u></b>   |
| <b>Income Required:</b>   |   |                            |                             |                             |
| Annuity Savings Fund  | 100,441                                   | 176,145                    | 226,562                     | 281,882                     |
| Annuity Reserve Fund  | 204,687                                   | 153,834                    | 154,529                     | 176,966                     |
| Military Service Fund   | 0   | 0                          | 79                          | 105                         |
| Expense Fund  | <u>401,492</u>                            | <u>264,295</u>             | <u>166,144</u>              | <u>181,018</u>              |
| <b>TOTAL INCOME REQUIRED</b>  | <b><u>706,620</u></b>                     | <b><u>594,275</u></b>      | <b><u>547,314</u></b>       | <b><u>639,971</u></b>       |
| Net Investment Income   | <u>10,417,859</u>                         | <u>12,682,755</u>          | <u>(4,188,887)</u>          | <u>(2,308,200)</u>          |
| Less: Total Income Required   | <u>706,620</u>                            | <u>594,275</u>             | <u>547,314</u>              | <u>639,971</u>              |
| <b>EXCESS INCOME TO THE PENSION<br/>RESERVE FUND</b>                  | <b><u>\$9,711,239</u></b>                 | <b><u>\$12,088,480</u></b> | <b><u>(\$4,736,201)</u></b> | <b><u>(\$2,948,171)</u></b> |

## **LEXINGTON RETIREMENT SYSTEM**

### **STATEMENT OF ALLOCATION OF INVESTMENTS OWNED**

(percentages by category)

**FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004**

|   | MARKET<br>VALUE            | PERCENTAGE<br>OF TOTAL<br>ASSETS | PERCENTAGE<br>ALLOWED* |
|---|----------------------------|----------------------------------|------------------------|
| Cash                                    | (\$95,624)                 | -0.11%                           | 100                    |
| Short Term                              | 585,161                    | 0.65%                            | 100                    |
| Fixed Income                            | 0                          | 0.00%                            | 40 - 80                |
| Equities                                | 4,548,402                  | 5.07%                            | 40                     |
| Pooled Short Term Funds                 |                            | 0.00%                            |                        |
| Pooled Domestic Equity Funds            |                            | 0.00%                            |                        |
| Pooled International Equity Funds       | 17,681,689                 | 19.70%                           |                        |
| Pooled Global Equity Funds              |                            | 0.00%                            |                        |
| Pooled Domestic Fixed Income Funds      | 16,785,459                 | 18.70%                           |                        |
| Pooled International Fixed Income Funds |                            | 0.00%                            |                        |
| Pooled Global Fixed Income Funds        |                            | 0.00%                            |                        |
| Pooled Alternative Investment Funds     |                            | 0.00%                            |                        |
| Pooled Real Estate Funds                |                            | 0.00%                            |                        |
| Pooled Domestic Balanced Funds          | 50,252,148                 | 55.99%                           |                        |
| Pooled International Balanced Funds     |                            | 0.00%                            |                        |
| PRIT Cash Fund                          |                            | 0.00%                            |                        |
| PRIT Core Fund                          |                            | 0.00%                            | 100                    |
| <b>GRAND TOTALS</b>                     | <b><u>\$89,757,234</u></b> | <b><u>100.00%</u></b>            |                        |

For the year ending December 31, **2004**, the rate of return for the investments of the **Lexington** Retirement System was 13.07%. For the five-year period ending December 31, **2004**, the rate of return for the investments of the **Lexington** Retirement System averaged 4.33%. For the 20-year period ending December 31, **2004**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Lexington** Retirement System was 10.41%.

## **Lexington Retirement System**

### **SUPPLEMENTARY INVESTMENT REGULATIONS**

#### **FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004**

The **Lexington** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on :

January 9, 1989

20.03(1) Equity investments shall not exceed 65% of the total book value of the portfolio at the time of purchase.

September 14, 1989

20.04(6) American Depository Receipts listed on a United States stock exchange or traded over the counter in the United States, provided that all such investments not exceed 6% of the total market value of the portfolio.

August 1, 1991

16.02(4) The board may charge custodian bank expenses against earned income from investments in an amount not to exceed .08% of the market value of the assets of the system on an annual basis.

May 22, 1992

20.03(1)(a) Domestic equities shall not exceed 65% of the total book value of the portfolio at the time of purchase.  
(b) International equities shall not exceed 10% of the total book value of the portfolio at the time of purchase.

20.04(1) United States based corporations and equities of foreign corporations.

20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

August 24, 1995

20.03 (1) Equity investments shall not exceed 65% of the portfolio valued at market, including international equities, which shall not exceed 20% of the portfolio valued at market.

September 12, 1996

20.06(10) Private Placement securities falling under the governance of Rule 144A may be purchased up to 5% of the market value of the fixed income portfolio at the time of purchase. These Rule 144A Private Placements shall be considered to be corporate bonds and, as such, governed by guideline constraints pertaining to corporate bonds including those stated in the Statement of Objectives (Form 18-1) and PERA Regulations 840 CMR.

20.03(1) Equity investments shall not exceed 70% of the portfolio valued at market, including international equities, which shall not exceed 20% of the portfolio valued at market.

## **Lexington Retirement System**

### **SUPPLEMENTARY INVESTMENT REGULATIONS**

#### **FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004**

October 26, 2004

21.01 (2) (3) In order to expand the range of investment opportunities and to better manage risk, Wellington Management Company's Opportunistic Investment Approach is authorized to utilize long and short positions in certain derivative instruments. These positions would be used to implement pair-wise relative value trades involving various asset classes and subclasses, regions, currencies, and other market segments. The instruments used will be highly liquid, no net leverage will be employed, and there will be no individual stocks sold short. The notational value of such instruments will be limited to 15% of the total market value of the portfolio.

July 28, 2004

16.08

In accordance with PERAC Investment Guideline 99-2, the Lexington Retirement Board is authorized to modify its international equity mandate with Wellington Management Company. The Board wishes to increase its exposure to the Pacific Rim, and intends to do so by investing in a new commingled fund, the Wellington Pacific Basin Investment Approach. Pacific Rim stocks already constitute about one quarter of the investment universe in which Wellington currently invests for the Board. Lexington has had a very satisfactory relationship with Wellington for international equity management for over ten years and, based on the depth of the firm's international equity portfolio management and research staff and the excellent performance record of the Pacific Basin product, it feels that this is the most effective and efficient way to achieve greater exposure to that area. The investment team that manages the Pacific Basin product is part of the team that manages the EAFE product in which the Board currently invests, and the investment process and strategy are the same.

# **Lexington Retirement System**

## **NOTES TO FINANCIAL STATEMENTS**

**FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004**

### **NOTE 1 - THE SYSTEM**

The plan is a contributory defined benefit plan covering all **Lexington** Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

## **Lexington Retirement System**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

#### **FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004**

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

#### **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

## Lexington Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

#### **FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004**

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

#### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Lexington Retirement System** submitted the following supplementary membership regulations, which were approved by PERAC on:

June 6, 1990

##### Membership

A minimum workweek of twenty-five (25) hours shall be required for membership in the System. (Revised by supplementary rule approved February 13, 1991).

June 6, 1990

##### Creditable Service

For school employees, nine (9) months served shall be equal to 12 months creditable service.

## **Lexington Retirement System**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

#### **FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004**

##### **NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)**

February 13, 1991

Membership

A minimum workweek of eighteen (18) hours shall be required for membership in the System. (Revised by supplementary rule approved June 20, 1991).

February 13, 1991

Creditable Service

Permanent part-time employees working at least 18 hours per week are granted full time creditable service.

June 20, 1991

Membership

A minimum workweek of twenty-five (25) hours shall be required for membership in the System. (Revised by supplementary rule approved February 19, 1992).

February 19, 1992

Membership

A minimum workweek of eighteen (18) hours shall be required for membership in the System.



## Lexington Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

#### **FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004**

##### NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the Finance Director who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: Vacant

Appointed Member: Michael McNabb Term Expires: 10/18/05

Elected Member: John Ryan Term Expires: 12/30/05

Elected Member: Robert Cunha Term Expires: 06/30/08

Appointed Member: Alan Fields Term Expires: 01/20/06

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

|                        |   |                                 |
|------------------------|---|---------------------------------|
| Treasurer - Custodian: | ) |                                 |
| Ex officio Member:     | ) | The Board does not have a       |
| Elected Member:        | ) | policy independent of the town. |
| Appointed Member:      | ) |                                 |
| Staff Employee:        | ) |                                 |

# Lexington Retirement System

## NOTES TO FINANCIAL STATEMENTS (Continued)

### FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

#### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by **Mellon** as of **January 1, 2004**.

|   |                            |
|---|----------------------------|
| The actuarial liability for active members was                    | \$43,277,569               |
| The actuarial liability for inactive members was                  | 946,677                    |
| The actuarial liability for retired members was                   | <u>53,806,727</u>          |
| The total actuarial liability was                                 | <b>98,030,973</b>          |
| System assets as of that date were                                | <u>83,049,848</u>          |
| The unfunded actuarial liability was                              | <b><u>\$14,981,125</u></b> |
| <br>The ratio of system's assets to total actuarial liability was | <br>84.7%                  |
| As of that date the total covered employee payroll was            | \$20,464,021               |

The normal cost for employees on that date was 8.09% of payroll

The normal cost for the employer was 5.06% of payroll

The principal actuarial assumptions used in the valuation are as follows:

**Investment Return:** 8.00% per annum

**Rate of Salary Increase:** 5.00% per annum

#### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2004

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>( a ) | Actuarial<br>Accrued<br>Liability<br>( b ) | Unfunded<br>AAL<br>(UAAL)<br>( b-a ) | Funded<br>Ratio<br>( a/b ) | Covered<br>Payroll<br>( c ) | UAAL as a<br>% of<br>Cov. Payroll<br>( (b-a)/c ) |
|--------------------------------|--|--|--------------------------------------|----------------------------|-----------------------------|--|
| 1/1/2004                       | \$83,050,000                             | \$98,031,000                               | \$14,981,000                         | 84.7%                      | \$20,464,000                | 73.21%   |
| 1/1/2002                       | 77,015,000                               | 86,500,000                                 | 9,485,000                            | 89.0%                      | 20,803,000                  | 45.59%   |
| 1/1/1999                       | 71,069,000                               | 74,362,000                                 | 3,293,000                            | 95.6%                      | 18,631,000                  | 17.67%   |

## Lexington Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

**FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004**

#### NOTE 6 - MEMBERSHIP EXHIBIT

| <b>Retirement in Past Years</b>                    | <b>1995</b>               | <b>1996</b>               | <b>1997</b>               | <b>1998</b>               | <b>1999</b>               | <b>2000</b>               | <b>2001</b>               | <b>2002</b>               | <b>2003</b>               | <b>2004</b>               |
|--|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Superannuation                                     | 10                        | 21                        | 8                         | 13                        | 14                        | 14                        | 21                        | 7                         | 42                        | 8                         |
| Ordinary Disability                                | 0                         | 0                         | 0                         | 1                         | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         |
| Accidental Disability                              | 0                         | 1                         | 0                         | 1                         | 0                         | 1                         | 0                         | 0                         | 1                         | 0                         |
| <b>Total Retirements</b>                           | <b>10</b>                 | <b>22</b>                 | <b>8</b>                  | <b>15</b>                 | <b>14</b>                 | <b>15</b>                 | <b>21</b>                 | <b>7</b>                  | <b>43</b>                 | <b>8</b>                  |
| <br>Total Retirees, Beneficiaries and<br>Survivors | <br>342                   | <br>351                   | <br>353                   | <br>351                   | <br>353                   | <br>351                   | <br>360                   | <br>361                   | <br>389                   | <br>385                   |
| <br>Total Active Members                           | <br>563                   | <br>594                   | <br>667                   | <br>670                   | <br>664                   | <br>670                   | <br>690                   | <br>692                   | <br>652                   | <br>584                   |
| <br><b>Pension Payments</b>                        |                           |                           |                           |                           |                           |                           |                           |                           |                           |                           |
| Superannuation                                     | \$2,779,905               | \$2,968,673               | \$3,170,917               | \$2,409,881               | \$2,525,620               | \$2,685,347               | \$2,981,963               | \$3,238,169               | \$3,336,345               | \$4,281,068               |
| Survivor/Beneficiary Payments                      | *                         | *                         | *                         | 187,976                   | 192,657                   | 193,365                   | 216,132                   | 235,102                   | 226,138                   | 222,283                   |
| Ordinary Disability                                | *                         | *                         | *                         | 46,108                    | 46,857                    | 47,523                    | 49,250                    | 50,618                    | 45,071                    | 42,989                    |
| Accidental Disability                              | *                         | *                         | *                         | 582,100                   | 583,711                   | 578,716                   | 577,167                   | 573,842                   | 602,568                   | 627,593                   |
| Other  | *                         | *                         | *                         | 128,271                   | 101,598                   | 256,869                   | 288,754                   | 270,532                   | 300,137                   | 369,004                   |
| <b>Total Payments for Year</b>                     | <b><u>\$2,779,905</u></b> | <b><u>\$2,968,673</u></b> | <b><u>\$3,170,917</u></b> | <b><u>\$3,354,336</u></b> | <b><u>\$3,450,443</u></b> | <b><u>\$3,761,820</u></b> | <b><u>\$4,113,267</u></b> | <b><u>\$4,368,262</u></b> | <b><u>\$4,510,259</u></b> | <b><u>\$5,542,938</u></b> |

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